
SEC Chief Accountant Offers Guidance to Audit Committees During Period of Change

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In a November 14 [speech](#) at the Financial Executives International 36th Annual Current Financial Reporting Issues Conference, SEC Chief Accountant Wesley Bricker commented on a range of topics, including effective financial reporting, new GAAP standards, the auditor's reporting model and distributed ledger technology applications (blockchain). His speech included the following guidance for audit committees:

- *New GAAP Standards.* Expanding upon statements made in prior discussions regarding new GAAP standards, Mr. Bricker commented on new standards related to revenue, leases and financial instruments. With respect to the new revenue recognition standard (which comes into effect for many companies on January 1, 2018), Mr. Bricker advised that audit committees should be on the lookout for required communications from their auditors about any concerns with their companies' anticipated implementation of the new standard. He suggested that "[i]t can be valuable for audit committees to listen for any differences in assessment of implementation status, milestones, or issue resolution between management's and the auditor's presentations."
- *The Auditor's Reporting Model.* In discussing AS 3101, the new PCAOB standard that will bring "significant changes" to the independent auditor's report, Mr. Bricker emphasized that for the standard "to achieve its full potential, the requirements must be effectively implemented." ([See our October 30, 2017 post](#)) In preparing for this new standard, Mr. Bricker encouraged auditors to "update their methodologies, provide training, and, at the engagement team level, use the transition period to engage in dialogue with audit committees so that audit committees have time to understand the types of matters that may be communicated as critical audit matters in the audit reports." Mr. Bricker suggested that audit committees should have reasonable expectations that auditors will prepare to take members of the committee through the application of the new standard on their engagement, particularly with respect to critical audit matters. Mr. Bricker proffered the following questions for audit committees to ask their auditors:

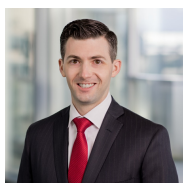
- What would the critical audit matters be this year?
- What would be the close calls?
- When could those matters have been raised, and which ones could have been identified at the start of the audit cycle?
- What does the auditor expect to say about those matters?
- When would we expect to see a draft report or at least a draft of the critical audit matters?

Mr. Bricker also emphasized that as auditors implement the new audit reporting standard, “expectations for timely, ongoing communication will continue to be an important element to the auditor-audit committee relationship.”

As did the SEC in approving AS 3101, Mr. Bricker stressed his expectation that the PCAOB will conduct a timely and effective post-implementation review of the new standard, and indicated that the SEC staff will review carefully the results of the post-implementation procedures and work with the PCAOB as it considers whether changes to the requirements are needed, including as to the implementation date for non-large accelerated filers.

With upcoming effective dates for the new GAAP standards and enhancements to the auditor’s reporting model, audit committees should continue to closely watch for developments in this regard. Mr. Bricker’s remarks provide some useful guidance for steps committees can take.

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